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EFFECTS ON POVERTY ALLEVIATION OF STRUCTURAL ADJUSTMENT PROGRAMMES, JOB CREATION POLICIES AND MEANS FOR THE PARTICIPATION OF SMALL SCALE AND MICRO-ENTERPRISES IN INTERNATIONAL TRADE

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INTRODUCTION

1. The present issues note has been prepared in accordance with directives contained in the work programme that was adopted by the Standing Committee on Poverty Alleviation at its first session, in January 1993.[1] The note is concerned with the effects on poverty alleviation of the following three issues: (a) structural adjustment programmes, (b) job creation policies, and (c) means for the participation of small-scale and micro-enterprises in international trade. In view of the intrinsically distinct nature of each of the issues, the note is divided into three separate parts, with cross-references among them as appropriate. While each of the three themes is distinct and important in its own right, they are dominated by the topic of structural adjustment and have a common link which is the gainful employment of the poor. The issues note also dwells upon many subsidiary issues. These include, among others, finance, trade, privatization, small-scale enterprises, transnational corporations, science and technology, rural development, and physical infrastructure. Some of these themes are ones in which UNCTAD has special competence and responsibility; others form part of development concerns for which UNCTAD has a general mandate.

2. Much has been written elsewhere on the social aspects of structural adjustment and, if not on effective ways of generating new jobs, at least on prevailing labour market conditions in the developing world. The literature on the small-scale sector, however, is virtually silent on the issue of international trade.[2] Likewise, the trade-related literature has tended to ignore the small-scale sector, dismissing it as irrelevant on the grounds of its alleged deficiencies in economies of scale and in technology.[3] Contrary

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[1] The Standing Committee on Poverty Alleviation, which was established by UNCTAD at its eighth session, has as its main objective "to contribute to national and international efforts to prevent, alleviate and reduce poverty, particularly where it is more acute, as well as to the formulation of related national and international policies". The methods of work associated with the Committee emphasize exchanges of national experience through (a) the holding of workshops funded from extra-budgetary resources, and (b) the convening of a preparatory meeting of an intergovernmental group of experts (IGE).

[2] The small-scale sector often forms part of the following research disciplines and orientations: neo-classical economics, growth linkages in agricultural development, informal sector, flexible specialization, and decentralization. None of those areas focuses explicitly on the linkages between the small-scale sector and international trade. The literature on transnational corporations likewise neglects the small-scale sector in the developing world. See J. Tendler, "The remarkable convergence of fashion on small-scale enterprises and the informal sector: what are the implications for policy?", Department of Urban Studies and Planning, Massachusetts Institute of Technology, Cambridge, 1987 (processed).

[3] Even most books and articles on the small-scale sector share this bias. For instance, in M.Cortes, A. Berry and A. Ishaq, *Success in Small and Medium-Scale Enterprises: The Evidence from Colombia*, New York, Oxford University Press, 1987, p.27, the following is stated: "Since exporting normally requires an organization of some size with opportunities for the division of labour, international trade tends to be the preserve of large firms. Some manufactured exports, especially those destined for developed

to conventional belief, however, the fragmentary evidence presented in part III of this note strongly suggests that the small-scale sector can play an important and dynamic role in the production of direct and indirect exports. For instance, a cluster of small-scale enterprises in the Sinos Valley, Brazil, grossed in 1991 nearly US$ 900 million in the export of almost 100 million pairs of shoes. The international trade aspect of small-scale enterprises that employ many of the poor is thus a neglected area of inquiry where a sharing of knowledge and national experiences in a preparatory workshop for the third session of the Standing Committee on Poverty Alleviation could make a valuable contribution to policy analysis in an important area of international trade and poverty alleviation.

I. EFFECTS ON POVERTY ALLEVIATION OF STRUCTURAL ADJUSTMENT PROGRAMMES

A. BACKGROUND

3. During the 1980s there was a veritable explosion of programmes aimed at stabilization and adjustment, with the latter continuing to dominate the policy landscape of much of the developing world in the 1990s. Their origins in the destabilizing effects of the second oil shock, falling primary product prices, high real interest rates and the emergence of the debt crisis in the early 1980s are well known. Given the decisions by virtually all developing country governments to honour their debt commitments and the policies accordingly set forth by creditors, severe reductions in consumption and investment were inevitable. At the same time, the perception spread among a number of industrialized countries and multilateral lending institutions that policy interventions by the public sector in developing countries were largely responsible for their economic difficulties, and therefore were in need of a major overhaul. Consequently, it was not long before stabilization programmes featuring monetary, fiscal and exchange rate policies were supplemented by structural adjustment programmes emphasizing price, financial, trade, public enterprise and labour markets liberalization. In the process, lending by the multilateral financial institutions became increasingly policy based, in contrast with the earlier emphasis on infrastructure and basic needs lending.

4. Despite differences in application from country to country, the core objectives of structural adjustment packages have been to promote exports by improving price incentives, and to increase the efficiency with which resources, goods and services are allocated in the economy. Likewise, the opening of the economy to foreign trade and investment, thereby subjecting it to the discipline of foreign competition, has been viewed as a means of promoting efficiency in domestic production. Structural adjustment policies have included the freeing of exchange rates, interest rates and real wage rates; the reduction or elimination of various forms of subsidies and price controls; the adoption or augmentation of user charges for public services; and the privatization of public enterprises. Such measures have implied a

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countries, need to be similar to items normally consumed in the buying country; consequently they may require a relatively large-scale and capital-intensive production technology. This requirement is a barrier to participation by small producers".

shift towards market-determined prices and a diminished role for the State both as an economic agent and as a regulator of economic activity.

5. Evaluating the effects of adjustment on poverty is difficult due to the diversity of initial economic conditions and structures in the countries in question; to the recentness of adjustment experiences in most countries; to the trade-offs that must be considered between short-term poverty alleviation and long-term poverty reduction through economic growth; to the difficulty in disentangling the effects of adjustment on poverty from other influences bearing upon the welfare of the poor; and to the challenges of accounting for the relevant externalities and the counterfactuals of what the outcome might have been in the absence of adjustment. Furthermore, because of the heterogeneous nature of poverty, poor people have been differently affected by structural reforms. Because of these difficulties, any global overview of adjustment in relation to poverty must be of a general nature, selective in content, and entail judgements with which reasonable people may in some instances disagree.

B. INTERPRETING THE EVIDENCE

6. In the absence of a system of compensating developing countries for external shocks, an increase in poverty was inevitable in those developing countries that experienced the debt crisis and the reversal in terms of trade of the 1980s. It would therefore be incorrect to impute to structural adjustment policies those adverse effects on poverty that are mainly attributable to the debt crisis and the austerity measures which that crisis triggered. Declines in per capita social spending, for instance, have been more associated with the budget stringency of stabilization policies and the demands made by rising claims of interest payments on the debt than to specific provisions of structural adjustment measures as such. That said, it is also true that, because of the knock-on effects of structural adjustment on the macroeconomic variable, austerity measures have had to be intensified and extended beyond the time-frame necessary to achieve macroeconomic adjustment. As discussed further on, interest rate liberalization has intensified the effects of tight monetary policy; trade liberalization has created pressures for further currency devaluations; and the forgone revenues from trade and financial liberalization have augmented and extended the need for public expenditure reduction policies.

7. Structural adjustment to date has affected poverty in various ways, both positive and negative. On the positive side, smallholder farmers who grow food and export crops have in some cases benefited from economic liberalization policies.[4] As discussed further on, however, structural adjustment programmes that have eliminated government marketing boards have not paid sufficient attention to ensuring that the benefits of incentives to exports are passed on to small producers rather than captured by traders and other middlemen. The incomes of most urban poor households and a large

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[4] While the fall in primary commodity prices over the last decade reduced the real prices that producers have received for export crops, that is a fallacy-of-composition issue that is only loosely associated to questions regarding the direct effects of structural adjustment measures on poverty.

proportion of the rural poor engaged in non-tradeable activities have, on the other hand, declined as a result of structural reforms. Moreover, price increases have occurred across a wide range of essential and mass-consumption goods, including public utilities, schooling, health care and food staples at official prices, but the impact of these increases on the poor has varied. Higher prices have hurt the urban poor more since most of the rural poor have little if any access to most of those goods. In sum, the urban poor have unambiguously been negatively effected in the medium term by structural adjustment programmes, while the impact on the rural poor has depended on a variety of factors, not least of which have been the degree of concentration of landownership in the production of export crops and the extent to which export incentives have been passed on to small producers.

8. Besides their direct impact on poverty, structural adjustment policies have distributional effects of concern to poverty because of the patterns of investment, consumption and resources concentration which they induce. In some instances, it has already become evident that regressive distributional shifts due to structural adjustment policies have hurt the poor more than would otherwise have been the case. [y] Generally speaking, structural adjustment policies have affected income distribution through supply and price factors and, taken together with the continuation of stabilization policies, through incomes and employment conditions. With respect to supply and price factors, for instance, a rise in domestic interest rates reflecting the relative scarcity and greater international mobility of financial capital, as compared with relatively abundant and non-tradeable wage-labour, has led to a functional redistribution of income in favour of owners of financial resources. The latter have been able to command high rates of return on financial assets kept in the country since the liberalization of capital and foreign exchange markets gives them the option otherwise of moving their resources abroad, away from the risks of devaluation. Wage-earners, in contrast, have seen their primary incomes decline in real terms as a result of labour market, trade and financial liberalization policies, as discussed further on.

9. The growth of adjustment-related poverty and, in particular, regressive changes in relative incomes among households is clearly evident in Latin America. Declines in real incomes and in access to and quality of services were first triggered by the severe economic crisis of the early 1980s and continued under the stabilization and structural adjustment programmes undertaken in the region. In some cases these setbacks were attenuated with the abatement of inflation and a fragile return to growth, thus producing a sense of cautious optimism. However, structural-adjustment-based modalities of development in the region have perpetuated greater income inequalities and more precarious employment conditions than existed in the pre-adjustment period. [z] Indeed, the share of wage-earning workers in GDP fell by 6 per cent

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[y] See, for example, G. Datt and M. Ravallion, "Growth and redistribution of components of changes in poverty measures: a decomposition with applications to Brazil and India in the 1980s", *Journal of Development Economics*, vol. 28, 1992.

[z] See, for example, O. Altimir, "Income distribution and poverty through crisis and adjustment", ECLAC Working Paper No. 15, Santiago, September 1993.

while the share of economic agents rose by 8 per cent between 1980 and 1990.[7/] Moreover, there is little evidence that incipient signs of economic recovery are bringing any relief to the poor in Latin America as a whole. The proportion of the population in poverty, in fact, rose from 41 to 46 per cent between 1980 and 1990, with urban poverty increasing from 30 to 39 per cent and rural poverty remaining steady at around 60 per cent during the 1980s.[8/] In numerical terms, the ranks of the urban poor nearly doubled during the 1980s, rising from 62.9 million in 1980 to 115.5 million in 1990, while rural poverty grew from 73 million to 80.4 million.[9/] The proportion of the urban population in destitution likewise increased from 9 to 17 per cent, while that of the rural population rose from 28 to 30 per cent during the same period.[10/]

10. Trends in incomes and poverty followed a similar pattern in much of Africa, although income inequality was generally diminished rather than augmented.[11/] Factors which contributed to declining incomes include a debt burden that exceeds GNP, falling terms of trade, droughts and in some cases civil strife.[12/] One outcome was that the minimum real wage of most sub-Saharan African countries declined by over 40 per cent in the 1980s, as compared with the 1970s.[13/] Likewise, the proportion of the population of the region in poverty during the 1980s is estimated to have grown from 21 to 29 per cent in the urban areas while remaining unchanged at 54 per cent in the rural areas.[14/] At the same time, structural adjustment programmes in sub-Saharan Africa have not yet been successful at moving national economies

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7/ See R. Infante, "Labour market, urban poverty and adjustment: new challenges and policy options", International Institute for Labour Studies, 1993, p.5.

8/ Corresponds to household per capita incomes below poverty lines equivalent to double country-specific minimum food budgets, which ranged from 22 to 34 dollars in 1988 per person a month in the urban areas. For 1980 estimates, see ECLAC, "Magnitud de la pobreza en America Latina en los anos ochenta", *Estudios e informes de la CEPAL*, United Nations publication, Sales No. 91.II.G.10, 1991. For 1990 estimates, see ECLAC, "Latin American poverty profiles in the early 1990s" (LC/L.716, Conf.82/6), Santiago, Chile, 1992.

9/ *Ibid.*

10/ Destitution in Latin America is understood to correspond to household per capita incomes below the value of the country-specific minimum food budgets used to draw the poverty lines. Ibid.

11/ See V. Jamal and J. Weeks, "The vanishing rural-urban gap in sub-Saharan Africa", *International Labour Review*, vol. 123 No. 3, 1988.

12/ See, for instance, F. Cheru, "Structural adjustment, primary resource trade and sustainable development in sub-Saharan Africa", *World Development*, vol.20, no.4, April 1992.

13/ See the ILO, Advisory Committee on Rural Development, Geneva, 1990.

14/ The poverty line corresponds to $370 per year per capita, in 1985 PPP dollars, as adopted in World Bank, *World Development Report 1990: Poverty*, (Oxford University Press, 1990), table 2.1. See D. Ghai, (ed.), *The IMF and the South: The Social Impact of Crisis and Adjustment* Zed Books Ltd., (London), 1991.

unambiguously toward sustainable growth.[15] Even those sub-Saharan countries seen by the multilateral financial institutions as adjusting more successfully than others have had deteriorating rates of investment in the last several years.[16] While there have been one-off improvements in real domestic producer prices as a result of currency devaluations, primary product exporters facing inelastic demand structures have found their output growth feeding into lower international terms of trade. Furthermore, land and labour productivity in staple food production continues to stagnate or decline in much of the region despite the introduction of structural adjustment measures designed to encourage increased food production for domestic markets.

11. The experience of a number of East Asian countries, on the other hand, has been generally positive. Their social costs of stabilization and adjustment were relatively small because they started adjusting before the disequilibria reached critical proportions. This prompt economic action when faced with emerging macroeconomic imbalances, combined with swiftly-implemented measures of benefit to the poor, enabled these countries to return to a path of sustained economic growth and falling poverty levels after only a few years of interruption. Moreover, the economic adjustment programmes which these countries designed and implemented were premised on a firm and direct, interventionist role for the State in trade and other aspects of the economy.[17] By adjusting continuously, in their own way and of their own volition, to changing circumstances, these countries have been able to expand their export manufactures and successfully combine high and sustained rates of growth with poverty reduction and macroeconomic stability.[18]

C. SELECTED STRUCTURAL ADJUSTMENT INSTRUMENTS

12. The impact of orthodox adjustment policies on the poor has varied according to the mix, sequencing and phasing of adjustment instruments and the structural composition and nature of poverty in the country in question. A number of structural adjustment instruments are discussed below, as some appear to have been associated with disproportionately adverse effects on the

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[15] See, for example, UNCTAD, *Trade and Development Report, 1993*, United Nations publication, Sales No. E.93.II.D.10, 1993, part two, chap. II; and A. Cornea, "Is adjustment conducive to long-term development? the case of Africa in the 1980s", Innocenti Occasional Papers, Economic Policy Series No.21, UNICEF-ICDC, Florence, 1991.

[16] See UNCTAD, *op. cit.*; and "Africa: a flicker of light", *The Economist*, 5 March 1994, pp. 23-28.

[17] See, for example, F. Stewart, "The many faces of adjustment", *World Development*, vol.9, No. 12, December 1991; E. Thornbecke, *Adjustment and Equity in Indonesia*, Development Centre Studies (Paris, OECD, 1992); and D. Demery and L. Demery, *Adjustment and Equity in Malaysia*, Development Centre Studies (Paris, OECD, 1992).

[18] See A. Chowdhury and I. Islam, *The Newly Industrialising Economies of East Asia*, (London, Routledge, 1993); and World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, (New York and Oxford, Oxford University Press, 1993).

poor in relation to the amount of positive structural change they have induced.

1. Financial liberalization

13. Financial reform became necessary in many countries in the aftermath of the external shocks of the 1980s when the financial sector was in distress and savings had to be mobilized, *inter alia*, for servicing the debt. Moreover, there emerged a growing consensus on the merits of eliminating the subsidy elements of many forms of directed credit and of raising deposit rates in line with inflation rates. For instance, the elimination of negative real interest rates has become recognized as important in removing the bias otherwise found in the price of capital over labour. [19/] Orthodox structural adjustment policies, however, call for the prompt and complete deregulation of credit markets and interest rates, which in practice has proven to be counterproductive when at the same time macroeconomic conditions have been unstable and lending institutions have had weak balance sheets. [20/] In addition, as discussed below, financial liberalization policies that have not been gradually and pragmatically phased in have worsened inequality and poverty in the short term.

14. The most serious problem has been that hastily instituted financial liberalizations have produced a rise in interest rates which, until the economy stabilizes and confidence in economic recovery grows, have proved to be very high and volatile in real terms. High costs of finance, in turn, have reduced the productive efficiency of finance. With capital investment driven out by short-term uses of credit, e.g., consumer credits and portfolio speculation by the wealthy, fewer new jobs have been created. In particular, small-enterprises' access to credit virtually dried up. [21/] Furthermore, the high interest payments which firms have had to make on borrowed capital have been taken out of the wage bill, thus driving down real wages.[22/]

15. In terms of their direct impact on poverty, very high real interest rates in the formal sector of the economy have been passed on through curb

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[19/] See F. Bourguinon and C. Morrisson, *Adjustment and Equity in Developing Countries: A New Approach*, (Paris, OECD,1992).

[20/] See G. Caprio, I. Atiyas and J. Hanson (eds.), *Financial Reform: Theory and Experience*, (Cambridge University Press, 1994); and G. Caprio and L. Summers, "Finance and its reform: beyond laissez-faire", Policy Research Working Paper No. 1171, World Bank, August 1993.

[21/] See, for example, F. Daramillio, F. Schiantarelli and A. Weiss, "The effects of financial liberalization on the allocation of credit: panel data evidence for Ecuador", Policy Research Working Paper No. 1092, World Bank, February 1993.

[22/] See, for example, UNCTAD, *Trade and Development Report, 1991*, United Nations, Publication, Sales No. E.91.II.D.15, part two, chap. III; and Y. Akyuz, "Financial system and policies in Turkey in the 1980s", in Aricanli and Rodrick (eds.), *The Political Economy of Turkey: Debt, Adjustment and Sustainability*, (London, Macmillan, 1990).

policies have thus added to stagflationary impulses in the economy.[25] The wealthy have often contributed to further bidding up the exchange rates, as in foreign currency auctions, in order to import luxury consumer goods. As the importation of wage goods and intermediate inputs for domestic industries engaged in the production of nontradeables became increasingly expensive, the consumer needs and employment security of much of the population, including many of the poor, were negatively affected. Moreover, although import competition may in the long run increase the productivity of local manufacturers, in the short term the importation of prestigious brand-name consumer goods drove out of business many local competing firms, thereby eliminating the jobs associated directly and indirectly with them.

19. The impact of trade liberalization policies on exports has been more successful in labour-intensive activities requiring fewer imported inputs, the reason being that devaluations cancel out most of the advantages of exports in cases where imported inputs make up most of the cost of production. The income effects on the poor of export liberalization policies have been generally more positive in predominantly agricultural countries and regions where the production of export crops is labour intensive and also dominated by smallholders, as opposed to plantation based. However, even in the best of cases, the proportion of the poor directly engaged in the production of export commodities has often been smaller than conventionally thought.[26] Moreover, despite efforts in a number of countries to improve real prices for producers of agricultural exports by reducing export taxes, increasing administered producer prices and passing on to producers part of the higher local currency earnings from a depreciation of the real exchange rate, such measures have generally been insufficient to compensate for the fall of primary commodity prices in world markets during the past decade.[27] Individual producer returns have been even lower in countries where government marketing boards have been abolished and traders, instead of producers, have captured most of the benefits corresponding to export incentives.[28] Furthermore, when marketing boards have been eliminated, the

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[25] See, for instance, D. Rodrick, "Closing the productivity gap: does trade liberalization really help?" in Helleiner (ed.), *Trade Policy, Industrialization, and Development: New Perspectives*, Oxford, (Clarendon Press, 1992).

[26] Even in Côte d'Ivoire - a country often singled out for its many small producers engaged in export-crop production - only 24 per cent of these producers were estimated in 1980 to be under the poverty line, as compared with 42 per cent of food producers. See F. Stewart, *op. cit.* Similarly in Ghana, over two thirds of cocoa producers account for less than a third of total cocoa production. See United States House of Representatives, "Structural adjustment in Africa: insights from the experiences of Ghana and Senegal", Washington, D.C., March 1989.

[27] See World Bank, *Adjustment in Africa: Reforms, Results and the Road Ahead*, World Bank Policy Research Report, (New York, Oxford University Press, 1994), pp. 76-81.

[28] The problem of price *incentives not* passing through to small producers has been most serious in cases where marketing boards have been abolished. The results have been more favourable to small producers when marketing boards have been retained and reformed, in which cases the private sector has often been allowed to compete with marketing boards or when the producer prices offered by marketing boards have been linked to world market prices.

resulting decline in the quality of the export commodities has eroded some of those countries' positions in world markets, with the result that producers in such cases suffered a further decline in prices corresponding to the premium-based loss in export earnings.[29] Given the collapse in producer prices, in fact, there are signs in a few countries that producers are not investing, for instance, in new cocoa trees, thus spelling trouble for future exports in an industry where it takes 10 years for new trees to mature.[30]

20. As for countries seeking to increase their exports of processed and manufactured goods, e.g. through the small-scale enterprise sector where many of the poor are employed (see part III), it is worth recalling that the spectacular successes of a number of East Asian countries in export-led growth suggest that carefully targeted and monitored government support measures can be more effective in increasing export levels than trade policies based on static allocative efficiency.[31]

3. Liberalization of labour markets

21. The liberalizing of labour markets has consisted of reducing or eliminating governmental intervention with respect to wage indexation, minimum wage legislation and other regulations affecting working conditions. The aim behind such deregulation has been to eliminate artificially favourable conditions for workers in the formal sector of the economy. The rationale for labour market liberalization has been that regulated labour markets have the effect of reducing the number of jobs available because of the high cost of employment to employers, and that this reduced demand for

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For a discussion of these various arrangements, see *ibid.*

[29] For instance, the dismantling of the Nigerian Cocoa Board (NCB) in 1986 has reportedly had an "extremely negative impact on the quality of cocoa" produced by the country. "Without the grading infrastructure previously provided by the NCB, cocoa shipments became totally unreliable and Nigeria quickly lost its price premium for quality on the world cocoa market". Worried in 1993 that the World Bank was likewise intent on dismantling the Ghana Cocoa Marketing Board, "the cocoa-consuming industry has clearly expressed its concern to the World Bank regarding the maintenance of strict quality control on Ghana's premium cocoa". In countering the trend toward dismantling the parastatal sector, Malaysia "set up the Malaysian Cocoa Board in 1990 for the express purpose of ensuring quality control. The Board assumes full responsibility for licensing and other regulatory functions to the cocoa industry, including the administration of export grading of cocoa throughout the country". See C. Brenner, *Technology and Developing Country Agriculture: The Impact of Economic Reform*, Development Centre Studies (Paris, OECD, 1993).

[30] See, for instance, M. Brown and P. Tiffen, *Short Changed: Africa and World Trade*, (London and Boulder, Colorado, Pluto Press, 1992), pp. 46-50.

[31] With respect to developing country trade policies, Japan's official aid agency, the Overseas Economic Cooperation Fund (OECF), stated in a position paper in 1991 that pro-intervention policies in markets play an essential role in fostering export-led development strategies. See J. Weeks, "Credit where discredit is due", *Ceres*, No. 143, September-October 1993.

labour in the formal sector increases the supply of labour in the informal sector, thus reducing real informal sector incomes.[32]

22. In practice, however, during the 1980s wages in the formal sector fell considerably, but incomes declined even more in the informal sector due to its absorptive role with respect to job retrenchments, falling real wages and lack of new job creation in the formal sector.[33] Even in the 1990s, labour market liberalization has not created the expected additional demand for labour in the formal sector (see part II). Instead, many firms which systematically reduced employment during the crisis years have not reverted to new recruitment even when the business cycle improved and plant capacity utilization levels of the pre-crisis years were regained.[34] The net result so far has been for the labour force supply to rise and for real wages to remain depressed. However, while labour market liberalization policies have proved unable to arrest this deterioration in employment conditions, it is quite possible that the situation for the bottom strata of the labour force would have been even worse in the absence of such policies (see part II).

4. Privatization

23. By rationalizing employment and wage structures as well as increasing formerly subsidized prices, the privatization of public enterprises has helped to accelerate the market-price objectives of structural reforms in many developing countries. Public divestment of this sort has generally proved to be sensible for conventional tradeable goods sectors where liberalized markets can be counted on to perform much of the disciplinary function. Moreover, the social hardships caused by workforce rationalization have been partly offset by the relief brought to the public budget by one-off revenue gains from divestiture. In some countries, in fact, most or all of the proceeds have been utilized to alleviate poverty through various direct interventions in the economy.[35] When state-owned enterprises have been sold to foreign buyers, moreover, privatization has proved a useful one-off source

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[32] See, for example, D. Woodward, *Debt, Adjustment and Poverty in Developing Countries*, vol. II, Pinter Publishers in association with Save the Children, London, 1992, chap. 7.

[33] In Latin America, for instance, real earnings per worker between 1980 and 1987 declined by 15 per cent in the private sector and by 32 per cent in the public sector. Labour absorption in the informal sector rose by 56 per cent in those years, and earnings per worker correspondingly fell by 41 per cent. See PREALC, "Evolution of the labour force market during 1980-1987", Santiago, 1988.

[34] See United Nations, "International cooperation for the eradication of poverty in developing countries: report by the Secretary-General" (A/46/454), 2 October 1991, p.15.

[35] Malaysia has channelled the savings from privatization into poverty alleviation projects; the Philippines has used part of the proceeds to finance its agrarian reform programme; and Jamaica has used its divestment proceeds to fund the Micro Investment Development Agency Ltd., which provides financing to micro-enterprises in such sectors as deep sea fishing, pig rearing and cash crop farming. See UNCTAD, "Design, implementation and results of privatization programmes: a cross-country review of national experiences" (TD/B/WG.3/7 and Rev.1 and 2), 1994.

of foreign exchange - thereby alleviating the external constraint. In the longer term, however, when only potentially profitable enterprises have been sold, governments are likely to be worse off for being left with only the money-losing remainder of the state sector. The repatriation of profits by foreign investors also represents a future drain on foreign exchange. As for domestic buyers of privatized enterprises, their use of limited resources for this purpose, rather than investing in new productive capacity, is a further cause of the decline in investment associated with orthodox adjustment programmes.

24. From a poverty alleviation perspective, the question generally has been not so much whether it is desirable to privatize or not, but rather whether all public enterprises should be privatized.[16] For instance, privatization programmes appear to have gone to extremes when public utilities with substantial externalities have been sold off. When suitable governmental regulations and consultative mechanisms have not been made part of the privatization package, there is the risk that privatized utility companies may disconnect the supply of electricity and running water to entire uncontrolled urban settlements where households are poor and many are illegally hooked up to the services in question.[17] Moreover, the privatization of such natural monopolies, where technical factors make competition impracticable, has usually failed to produce improvements in efficiency equivalent to the increases in real prices to consumers.[18] It should be noted, however, that higher utility tariffs are likely to affect negatively the non-poor more than the poor; the latter, if connected to piped drinking water and sanitation, could well end up paying less for piped water "commercially" supplied by privatized water companies than they previously paid for water purchased from private street vendors.[19]

5. Budgetary stringency

25. As mentioned earlier, policies of budgetary austerity have had to be prolonged in many adjusting countries due to the knock-on effects of liberalization policies. Under fiscal repression, consumption expenditure has generally been protected at the cost of investment. Although it fell in per capita terms, social expenditure has generally been preserved at its pre-crisis share of GDP and total public expenditure, thereby helping to maintain

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[16] See UNCTAD, *Trade and Development Report, 1992*, United Nations Sales Publication, No. E.92.II.D.7, 1992, part three, chap. II.

[17] See, on this subject, R. Devlin, "Privatizations and social welfare in Latin America", paper presented for the conference "The New Europe and the New World", Latin American Centre, St. Anthony's College, Oxford University, 9-11 September 1992.

[18] See D. Woodward, *op.cit.*, Chap. 7.

[19] In Lima, for example, poor families use only one-sixth as much water as wealthy families, but their monthly water bill (to private water-sellers) is three times as big. In Jakarta, 32 per cent of the city's 8 million people likewise buy their water from street vendors. See "Of wets and water", *The Economist*, 26 March 1994, p.17.

social stability.[40] Investment, however, has been squeezed out by fiscal constraints and the payment of interest on the debt. Except for the generally sustained share of public expenditure going to primary education, which represents both human capital investment and social consumption,[41] public expenditure on capital investment plummeted under stabilization programmes and has not recovered under structural reforms. Although external resources formed part of adjustment packages, the fall in investment has been greater in countries implementing orthodox structural adjustment programmes than in non-adjusting countries or countries with unorthodox forms of adjustment.[42] While in theory structural adjustment should minimize the need for new investment by making more efficient and productive use of existing resources, there remains the risk that, as idle capacity is reduced, renewed growth may be unsustainable unless there is sufficient new public investment (which is critical, among other things, for inducing private investment) as well as private productive investment.

26. It is not easy having to choose between short-term poverty alleviation through consumption expenditure and long-term poverty reduction through investment expenditure, but short-term concerns of making stabilization and adjustment politically sustainable have, in practice, prevailed over productive investment goals. Instead, attention could be given to targeting social expenditure more efficiently on the basic needs of the poor, while more capital could be channelled to those infrastructural investments that are likely to stimulate new productive investment by the private sector (see part II) as well as to meet basic human needs, such as clean drinking water and sanitation. There is scope for restructuring the composition of public investment in ways to make it more effective at reducing poverty (see part II). Unfortunately, neither the multilateral financial institutions nor the donor countries have provided assistance on a sufficient scale to enable adjusting countries to allocate resources to public investment without incurring deeper cuts in social expenditure.

6. Liberalization of domestic markets

27. The core principle of structural adjustment policies has been to allow markets to set prices and arbitrate the allocation of resources. The extent to which the poor have become better or worse off as a consequence has varied, depending on the proportion of the poor living in urban and rural areas and, within rural areas, the distribution of assets and access to inputs between the poor and non-poor. In much of sub-Saharan Africa, for instance, devaluations and liberalized food-staple price and marketing policies have helped produce a swing of domestic terms of trade in favour of agriculture. However, even in Africa the production of marketed food staples

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[40] See, for instance, IMF, *Government Financial Statistics*, Washington, D.C., for 1993 and earlier years; G. Cornia and F. Stewart, "The fiscal system, adjustment and the poor", UNICEF, Innocenti Occasional Papers No. 11, Florence, 1990; and D. Berstecher and R. Carr-Hill, *Primary Education and Economic Recession in the Developing World since 1980*, (Paris, UNESCO, 1990).

[41] See, for example, G. Psacharopoulos, "Returns to investment in education", Policy Research Working Paper 1067, World Bank, January 1993.

[42] See J. Weeks, *op. cit.*

is often dominated by large rather than small producers.[43] Moreover, the extent to which small producers have become better off is open to question, given the rise in input costs and, where food-staples trading has been transferred to the private sector, the capture of a large share of the increase in farmgate prices by middlemen.[44]

28. Because of the rapid rise of prices for basic services, food and other essential wage goods, the liberalization of domestic markets has proved detrimental, at least in the medium term, to both the urban and landless rural poor. The combination of reduced or eliminated food subsidies and increased farm prices, for instance, has adversely affected the budgets of food-deficit households, especially in the urban areas. Rises in the prices of some food goods, moreover, have triggered an explosion of prices in substitute goods, thus compounding the nutritional intake problems of wage-dependent households.[45] As for basic services, the imposition of fees on health care - while reducing the budgetary burden to the State of basic needs provision - has raised mortality and morbidity rates among many families too poor to afford the price increases.[46]

29. Market liberalization, however, can be a boon to the poor in sectors of the economy where the regulatory system has hindered their ability to house themselves adequately and carry on small-scale business activities (see part II). To the extent that they mitigate the fears of the poor of being harassed, evicted or deprived of home and micro-business through bulldozing, liberalization policies that are neutral toward the informal sector can unleash individual initiative and community energies in striving to satisfy

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[43] In Mali, for instance, 28 per cent of rural households are reported to account for 90 per cent of cereal sales. See J. Dione, "Food security and policy reform in Mali and the Sahel", in Dasgupta (ed.), *Issues in Contemporary Economics, Volume 3: Policy and Development* (London, Macmillan, 1991).

[44] It is reported by Oxfam, for instance, that with the dismantling of Zambia's agricultural marketing board, farmers are being paid by private traders under half the former State minimum price. See "Africa: a flicker of light", *op. cit.*

[45] With respect to the liberalization of food prices, for instance, the liberalization of the market in one food staple can result, in the short term, to an explosion of prices due to heavy speculation, which in turn pushes up the prices of other staple foods and depresses the demand for non-food goods. See, for instance, G. Durufle, "Structural disequilibria and adjustment policies in Madagascar", in Campbell and Loxley (eds.), *Structural Adjustment in Africa*, (London, Macmillan, 1989).

[46] For instance, according to Oxfam, three times as many women at Harare central hospital have died in childbirth after fees were introduced at health clinics in Zimbabwe. See "Africa: a flicker of light", *op. cit.* See also P. Gertler and J. van der Gaag, *The Willingness to Pay for Medical Care: Evidence from Two Developing Countries*, (Washington, D.C., World Bank and Johns Hopkins University Press, 1990).

basic shelter requirements and fostering entrepreneurship, construction employment and fixed capital formation.[47]

D. CONCLUSIONS

30. Adjustment is necessary for all countries, not only for recovering from exogenous shocks but also for continuously adapting to changing patterns of world demand and competitiveness, technological change and long-run trends in price relativities. The structural adjustment policies which many developing countries have adopted have helped to achieve this flexibility by reducing economic distortions, scarcity rents and other inertial impediments. Moreover, emphasis on the role of market signals in decision-making may help countries to adapt more efficiently to changes in the economic environment. However, orthodox approaches to structural adjustment have, in their present form, often impeded successful economic transformation and revitalization during the medium term. First of all, doctrinaire approaches to deregulation and liberalization have exceeded what is pragmatically optimal, harming rather than helping in particular those low-income countries that have limited scope for reorienting their economies in the medium or even long term. Secondly, proper sequencing and phasing are all-important, since it makes little sense to liberalize economies before basic improvements in fiscal and balance-of-payments positions are achieved. Indeed, liberalization policies have had knock-on effects on macroeconomic policies - as through the effects of trade liberalization on the balance of payments or financial liberalization with respect to monetary policy - which have prolonged and intensified the social hardships of stabilization programmes. All things considered, therefore, it makes sense to replace blunt liberalization policies with more nuanced, pragmatic measures; to introduce a more gradual and calibrated sequencing and phasing of structural reforms; to maintain an active governmental presence in compensating for market failure and to intervene directly in export promotion, investment incentives and parastatal reforms.

31. Partly because of the above shocks from structural reforms, the impact on the poor has, on balance, been negative up to now in most developing countries. The incidence of rural poverty has stagnated while urban poverty rose in the 1980s and remains higher today than the pre-crisis levels. As most of the poor are economically active in nontradeables production, their incomes have fallen while the cost of many wage goods has risen. Financial and trade liberalization have hurt their employment prospects in both the short and medium term. Those poor engaged in tradeables production have fared better, but appear often to have had only limited gains from liberalization policies. Export-crop producers, generally speaking, have been negatively affected by the fall in world prices for their commodities and, in instances where marketing boards have been dismantled, by the failure of price incentives to pass through private traders to them. In the long term, the growth of income inequality and a reduction in productive investment by the private and public sector do not augur well for future poverty reduction.

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[47] See, for instance, H. de Sotto, *The Other Path; The Invisible Revolution of the Third World*, (New York, Harper and Row, 1989); and A. Woodfield, *Housing and Economic Adjustment*, (London and New York, Taylor & Francis, 1989).

32. While markets play a very important role, the historical fact is that poverty reduction does not happen in a fully free market regime. Although a free market can be an efficient arbitrator in allocating scarce resources, it does not correctly value public goods which are the main determinants of the poor's ability to satisfy their basic needs. Less emphasis on laissez-faire and more on direct interventionism by governments is therefore needed if sustained growth and poverty reduction are to be achieved in the near future. East Asian economies using home-grown formulas of structural adjustment have borne out this assumption. Where there may be trade-offs between growth and poverty alleviation objectives, corrective measures in favour of the poor should be applied as closely to the poverty issue as possible. For instance, to the extent that market liberalization efforts may facilitate an eventual return to growth but handing over agricultural trading to private intermediaries may be disadvantageous to smallholders, it would be preferable to persevere with market liberalization policies but reform rather than dismantle inefficient agricultural marketing boards. Moreover, given the tendency of adjustment measures to increase income inequality, there will continue to be a need for complementary policies and programmes involving effective targeted interventions rather than reliance only on market mechanisms and trickle-down to alleviate and reduce poverty. Indeed, a proper balance between sound macroeconomic structures and policies, on the one hand, and pro-poor policies, on the other, is a prerequisite to the success of sustainable growth with poverty alleviation.[48]

II. EFFECTS ON POVERTY ALLEVIATION OF JOB CREATION POLICIES

A. BACKGROUND

33. It is estimated that some 120 million people in the world are unemployed and 700 million are underemployed.[49] That this number does not fall much below the estimates of the total number of poor in the world[50] is not surprising since unemployment and underemployment are the single most important factors determining whether people are poor.[51] That is not to say that poverty is not also characterized by other critical determinants, such as insufficient access to basic human needs (other than employment) and lack

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[48] See, for example, the agreed conclusions of the Intergovernmental Group of Experts on Poverty Alleviation (TD/B/CN.2/GE.1/L.2), 28 January 1994.

[49] See United Nations, "World Summit for Social Development: an overview", (A/CONF.166/PC/6), 14 December 1993.

[50] According to World Bank estimates (using a poverty line based on an annual income per capita of $370 in 1985 purchasing power parity dollars), the number of poor in the world in 1990 totalled 1,133 million. See World Bank, *World Development Report, 1992: Development and the Environment* (New York, Oxford University Press, 1992), table 1.1.

[51] Labour status is ahead of education as the most important variable in explaining poverty, whereas education is more important in explaining income distribution among the non-poor. See, for instance, J. Harris, K. Kannan and G. Rodgers, "Urban labour market structure and job access in India: a study of Coinbatore", International Institute for Labour Studies, Research Series No. 92, Geneva, 1990; and "Pesquisa de condicoes de vida na grande S. Paulo: principais resultados", SEADE, Sao Paulo, 1992.

of political empowerment and participation. However, exclusion from gainful work is a form of marginalization which, in the absence of safety-net support from the State or extended family or community ties, is tantamount to extreme poverty. In fact, poverty is disproportionately prevalent among households headed by irregularly and marginally self-employed persons, notably women.

34. The heterogeneity of labour markets and poverty situations implies that the links between the poor and employment vary both according to the composition and location of households and according to structural factors in labour markets. Generally speaking, employment is influenced on the supply side by population growth, labour force participation rates, migration and education, and on the demand side by the expansion of output, productivity, the labour intensity of technology, various structural factors, and the way available work is distributed. This last factor in particular demarcates the poor from the non-poor, especially in urban areas. The ways in which societies limit the life chances and mobility of some of their members are as important as productivity differentials between workers in explaining wage disparities and labour segmentation traps in which many of the poor are caught.

35. Given high rates of population growth, urban migration and the segmentation of labour markets, economic growth must be rapid to enable the trickle-down process to create sufficient and adequate jobs for the poor. The developing countries that have been successful in generating quality jobs for the poor have been those few countries that have grown at rates of up to 8 or 10 per cent a year. But even such rates may not prove sufficient in future years. The globalization of the economy implies that competitive productivity must continue to rise more rapidly, which suggests the creation of progressively fewer formal-sector jobs for every additional unit of output. However, the trend toward more flexible labour markets as a result of the growing practice of workplace rationalization and job outsourcing may prove advantageous to many of the poor in the informal segment of the labour market. Indeed, it appears that the decline in future jobs is likely to be concentrated more among good-quality jobs in the formal sector than among the casual and marginal jobs that mainly befall low-income workers.

36. Notwithstanding the apparent trend towards a growth in casual, low-paid jobs, the urban employment situation of the poor worsened significantly in the 1980s due to the debt crisis and subsequent stabilization and structural adjustment measures (see part I). Contrary to the conventional belief that unemployment in developing countries is mainly a middle-class phenomenon, the unemployment rate of the poor rose to three times the rate for the non-poor in a number of countries.[32] Survival in such situations was made possible by intra-family transfers, by days of work interspersed by days of unemployment, by the sale of assets, by indebtedness, or by unrecorded marginal work. The situation was even worse for the underemployed urban poor. The informal sector became saturated by the crowding-in of unemployed and underpaid workers - many of them from the formal sector - while the demand for informal-sector goods and services generally declined on account of recession

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[32] See, for instance, J. Burle de Figueiredo, J. Lachaud and G. Rodgers. "Poverty and urban labour markets in developing countries", paper submitted to the Symposium on "Poverty: New Approaches to Analysis and Policy", International Institute for Labour Studies, 22-24 November 1993, Geneva.

and economic hardship. Conditions, however, could have been still worse were it not for the informal-sector jobs created as a result of increased outsourcing of jobs from the formal sector and, in countries with external account imbalances, because of the repair and maintenance of vehicles and other imported durable goods for which replacements or spare parts that would need to be imported were not available.[53] Moreover, retrenched formal-sector workers with sizeable severance-pay settlements in many instances started up small enterprises, thus providing new jobs in the informal economy.

37. The employment situation for the rural poor generally did not change as radically. Many retreated into subsistence agriculture as a buffer against structural changes in the economy. However, where currency devaluations and trade liberalization policies encouraged the production of export crops, the increased profitability of mechanized cultivation led to labour displacement and the eviction of tenants in rural areas where land ownership was highly concentrated.[54] On the other hand, job opportunities on and off the farm increased in rural areas where small, labour-intensive farmers augmented their production in response to market signals.

38. The current labour market situation in most developing countries is an indication of how the job creation policies of governments during past decades were unable to do much to alleviate poverty. Indeed, developing country governments have made valiant attempts to create jobs for their labour force, in most cases seemingly without much success as far as the poor have been concerned. Until roughly the end of the 1960s, emphasis was placed on rapid, import substituting industrialization to bring about development and good quality jobs for poor and non-poor alike. Opportunities for further education formed part of the manpower planning and human resources development strategy of the industrialization drive. Some countries, moreover, adopted the planning concept of regional growth poles in order to try to slow migration to the capital cities and generate development and employment opportunities in secondary towns and outlying areas. Some pursued socialist forms of development which provided a more egalitarian distribution of jobs and incomes in the economy. A number of other countries looked to their export sectors as engines of growth and employment generation, adopting strategies that ranged from comprehensive export-led growth policies to more limited approaches such as the creation of enclave-type export processing zones to attract foreign investment. The "green revolution" in some cases benefited both small as well as large farmers and produced additional jobs

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[53] See, for instance, the Kumasi case study in part III of the present report. It should be noted, however, that many cases of import dependence on the part of the informal sector exist wherein lack of access to imported parts and raw materials hinder informal sector strategies of recycling and improvization in response to import scarcity. In that connection, see, for example, K. Meagher, "Limits to labour absorption: conceptual and historical background to adjustment in Nigeria's urban informal sector", UNRISD Discussion Paper, No. DP 28, Geneva, December 1991.

[54] See, for instance, J. Chonchol, "Agricultural modernization and peasant strategies in Latin America", *International Social Science Journal*, May 1990.

for the landless.[55] Land reforms reduced poverty in parts of Latin America, East and Western Asia, and East Africa by giving large numbers of the rural poor access to redistributed assets,[56] while resettlement and colonization schemes opened up new lands for settlers in some areas.

39. While some countries were successful at creating productive employment at a sufficiently fast rate to reduce and even virtually eliminate extreme poverty,[57] most were not. Labour market segmentation in many countries became increasingly pronounced between the relatively privileged unionized workers in the modern sector and the poor in the informal sector. As economic growth slowed in the 1970s, political pressure mounted on the public sector to create jobs in government and the parastatal sector to absorb secondary and tertiary education graduates. Some governments even adopted policies of guaranteeing jobs in the public sector for all university graduates. In the 1980s, however, acute budgetary constraints and, in some cases, public enterprise disbandment and privatization programmes slowed the growth of public sector employment.[58] While most public sector employees are counted

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[55] In much of Asia, the growth achieved through the "green revolution" on balance benefited the rural poor, even if not as much as the rich. In following the lead example of large farmers, small farmers came to benefit, with a lag, from the new seed-fertilizer technology, and agricultural labourers were positively affected as a result of the associated increase in demand for labour. On the other hand, in the cases mainly of larger farmers there were often negative effects on the rural poor due to labour-displacement and eviction of tenants owing to farm mechanization and the increased profitability of self-cultivation by landowners. See, for instance, G. Scobie, "Investment in international agricultural research: some economic dimensions", World Bank Staff Working Paper No. 361, Washington, D.C., 1979; and D. Lal, "Agricultural growth, real wages and the rural poor in India", *Economic and Political Weekly*, vol. 11 No. 26, 1976.

[56] Land reforms were undertaken with varying results in Iraq, the Islamic Republic of Iran, the Republic of Korea and the Syrian Arab Republic in the 1950s; in Bolivia, Chile, Ecuador, El Salvador, Mexico, Nicaragua and Peru, in terms of post-1960s Latin America; and, in the 1970s, in Ethiopia and Zimbabwe. Land was also redistributed on a thorough basis in China, Cuba and Vietnam at the time that socialist planned-economy governments came to power. The results of land reforms were often mixed, and in some countries the reforms were reversed or eroded over time. However, though total output in many cases fell as a result of the reforms, the direct beneficiaries gained in terms of improved food intake and living standards. Agrarian reforms in densely settled agricultural areas, on the other hand, typically had little impact on local employment and wage levels, thus only marginally benefiting those landless and poor peasants who did not receive land. In the case of Latin America, see, for example, W. Thiesenhusen (ed.), *Searching for Agrarian Reform in Latin America* (London, Unwin Hymen, 1989).

[57] See, for instance, S. Ng and R. Tyers, "A specific factors approach to the analysis of labour policy in Singapore", *Developing Economies*, Vol.30, No.1, 1992.

[58] Public employment reached a high point in the early 1980s, with 4.6 workers per 100 inhabitants in Latin America, 2.8 in Asia and 1.9 in Africa employed by the public sector. In terms of total share of government employment in total non-agricultural employment, the levels were 33 per 100 in Africa and 21 per 100 in Latin America. See P. Heller and A. Tait, "Government employment and pay: some international comparisons", IMF Occasional Paper No. 24, Washington, D.C., 1982.

among the non-poor,[59] the erosion of public sector wages in the 1980s brought many close to, or even below, the poverty line. In a number of cases, national youth services and other special youth programmes were launched to absorb the growing ranks of unemployed youth, but the coverage usually did not include the uneducated poor.

40. With the unarrested growth of unemployment and underemployment, and consequently increasing poverty and inequality, many governments have found it expedient to create special employment schemes. The "first generation" emergency employment schemes were developed in, among other countries, Botswana, Chile and India during the 1970s.[60] While basically welfare oriented, such schemes paid cash rather than in-kind incomes, and the pay has typically been for public works and construction labour. By screening participants through self-selection forms of targeting - hard physical labour at below statutory minimum wage pay - non-poor segments of the population have been dissuaded from competing for the jobs.[61] Starting with the late 1980s, externally financed special employment schemes have been adopted in Bolivia, Burkina Faso, Chile, Ghana, Honduras, Madagascar, Mali, Mexico, Niger, Peru, Senegal, Sri Lanka, Zambia and Zimbabwe. These schemes have provided jobs to persons whose incomes have declined as a result of adjustment-related job losses or higher food prices.[62] However, because of the relatively small size of their employment components and targeting criteria which sometimes omit the extremely poor, these schemes have generally benefited only a small fraction of the population under the poverty

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[59] The governmental and parastatal sectors employ only a very small fraction of the labour force in the bottom three deciles of the income distribution of most developing countries. In the late 1980s, for instance, the figure was 3.5 per cent in the case of Peru and 1.6 per cent in the case of Côte d'Ivoire. See P. Glewwe and D. de Tray, "The poor in Latin America during adjustment: a case study of Peru", Living Standards Measurement Study (LSMS) Working Paper No. 56, World Bank, Washington, D.C., 1989, and "The poor during adjustment: a case study of Côte d'Ivoire", LSMS Working Paper No. 47, World Bank, Washington, D.C., 1988.

[60] Botswana's employment schemes have been aimed at addressing the problems of limited employment opportunities in the rural areas and ensuring "entitlement sustenance during periods of severe drought". See A. Andrews, "Employment schemes in Botswana" (mimeo), Employment Strategies Branch, ILO, Geneva, 1993. Chile's public employment programme enrolled 222,900 workers at the height of the economic crisis in 1993, which brought the unemployment rate down to 19 per cent from the 32 per cent it would have been without the unemployment programme. See J. Martinez, "Efectos sociales de la crisis económica: Chile, 1980-1985", LC/R.519, ECLAC, Santiago, October 1986. The Maharashtra Employment Guarantee Scheme in India - a statutory programme that provides work on demand - is perhaps "the first programme which guarantees the right to work as a 'basic right' in a developing country". See S. Acharya, "The Maharashtra Employment Guarantee Scheme: a study of labour market interventions", ARTEP Working Paper, ILO, India, 1990.

[61] Self-targeting of this sort is generally more cost-effective than administrative indicator targeting in reaching the genuinely poor. See M. Ravallion, "Reaching the rural poor through public employment: arguments, experience and lessons from South Asia", *World Bank Research Observer*, vol.6, 1991.

[62] See, for instance, "Implementing the World Bank's strategy to reduce poverty: progress and challenges", World Bank, Washington, D.C., April 1993, Box 8.

line.[63] The fundamental problem, however, with most such programmes is that, if expanded beyond the local level to provide temporary jobs for all of the underemployed poor who need them, the institutional complexities and budgetary problems would become daunting while the main issue would remain largely unaddressed: moving the poor from poverty to economic self-sufficiency.

41. The public sector, often with the assistance of non-governmental organizations, has also sought in some countries to create self-employment opportunities through credit schemes. Some of these schemes have been directly targeted to the poor, as in the supply of day-to-day working capital to street hawkers, market women, and other small retailers. Investment capital, on the other hand, has usually been lent to the less poor who, in turn, often hire the poor to work in newly created or expanded small enterprises. In rural areas, where the poor often do not own land or other collateral, the lending has usually been done on a joint-liability group basis in which one member's failure to repay jeopardizes the group's access to future credit. Rural and urban credit schemes of the types described above exist in, among other countries, Bangladesh, India, Indonesia, Sri Lanka, Ecuador, the Dominican Republic, Kenya, Senegal and Zimbabwe. More recently, such credit schemes have been incorporated in social investment funds, such as Bolivia's. However, the relatively small number of poor who have benefited and the small amount by which their incomes have risen suggest that such credit schemes are only a partial answer to attempts to reduce poverty.[64]

42. Disillusionment with the disappointing results of industrialization and growth in creating good-quality jobs for the majority of the poor has induced many developing countries and international organizations to reexamine some of their assumptions. With macroeconomic constraints curtailing the scope for job creation through economic stimulus policies, laissez-faire approaches are receiving active consideration via labour-market liberalization policies forming part of structural adjustment programmes. According to that view, the market is an efficient arbitrator and, hence, intervention and regulation in factor and goods markets only reduce the creation of jobs. Economic reforms are seen as drawing the poor into the development process by freeing the prices that self-employed small farmers receive for their food crops and, in the urban areas, by reducing monopoly practices and encouraging the use of labour relative to capital (see part I). On the other hand, legislation that raises the level of wages above the marginal product of labour is viewed as acting as a disincentive to employment creation. To the extent that they do not necessarily link wages and productivity, rigid administered wages in general are condemned. Flexible wages, instead, are viewed as positively

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[63] They have had difficulty in reaching the poor because they are "quick-disbursing, poorly-targeted, add-on temporary institutions depending on external funds" designed to mitigate the unpopular effects of structural adjustment programmes. However, they have often been more effective at "generating social and economic assets with greater indirect benefits for the poor themselves" than the emergency employment programmes of the 1970s. See F. Stewart and W. van der Geest, "Adjustment and social funds: political panacea or effective poverty reduction?" (mimeo), ILO, Employment Strategies Branch, Geneva, 1994.

[64] See, for instance, M. Muqtada, "Special employment programmes - issues and challenges" in Muqtada (ed.), *The Elusive Target: An Evaluation of Target-Group Approaches to Employment Creation in Rural Asia*, ILO, 1989.

macroeconomic policies, economic growth and jobs creation is far from automatic in today's world. Given the impact of structural adjustment policies (see part I) and the competitive pressures of an increasingly integrated global economy (see part III), there is no assurance of an automatic return to stable and remunerative jobs when economies recover and return to an earlier growth path. On the other hand, there is increasing evidence that many lower-paid jobs can be created by means of assistance to the small-scale enterprise sector[67] and through labour-intensive interventions in the rural economy.[68]

45. In proposing job creation policy guidelines, it makes sense for them to be cost effective, achievable on a large scale, and mainstreamed to become an integral part of labour markets and the economy. In accordance with those criteria, policies that facilitate the labour absorption of the poor in to the economy are preferable to "workfare" projects that neither mainstream the poor nor enable them to move toward improved economic self-sufficiency. For maximum results, moreover, it would make sense to focus initially on encouraging the creation of jobs in areas, often poorly endowed in terms of natural resources, that have been neglected or actively discriminated against by governments and society - places where often the extremely poor tend to be concentrated. The reason for selecting disadvantaged areas is that the potential which all people innately possess to want to improve their conditions could be unleashed to greater immediate effect in circumstances where personal enterprise has been discouraged or suppressed in the past than in areas where it has already long been abetted and awarded. In urban squatter settlements and isolated, backward rural areas, for example, a positive response could be elicited through public sector measures that would be based on trust, cooperation and active support for the creation of jobs, including self-employment, and increased output within such areas. Moreover, attention should be given to increasing the opportunities of women for self-employment, as they are traditionally the most disadvantaged of the poor. It should be kept in mind, however, that job creation policies brought to disadvantaged urban and rural areas can provide, at best, only a partial answer to the jobless problem; under no circumstances can such policies, on their own, eliminate poverty.

46. In seeking to make fuller use of factor endowment and enable the poor to realize the potential with which they are born, the courses of action that are proposed below include informal sector liberalization; supply of basic infrastructure and security of land tenure to informal urban settlements; provision of start-up and working-capital credits to small-scale entrepreneurs in urban and rural areas; infrastructure supply to backward rural areas; and research and development assistance in biotechnology to increase the output and productivity of small producers in water-poor agricultural areas. Although the immediate beneficiaries of such interventions would not in all cases necessarily be the poorest of the poor, the additional jobs that would be directly and indirectly induced in micro-

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[67] The differences between micro-enterprises, small enterprises and the small-scale sector are explained in part III.

[68] See, for instance, "Poverty anywhere is a threat to prosperity everywhere: an interview with Gerry Rodgers of the International Institute for Labour Studies", *The Courier*, No. 143, January-February 1994.

enterprises, construction, agriculture and off-farm employment could be substantial.

47. It is to be recalled that the urban informal sector presents a number of job-creating opportunities, whether through subcontractual arrangements with the formal sector or the small-scale manufacture of items that foreign exchange shortages make it difficult to import.[69] Generally speaking, the use of more labour-intensive technologies by the small-scale sector, as compared with the large-scale industrial sector, makes the former more suited to job-creating policies.[70] Under such circumstances, an urban jobs-promotion package consisting of informal sector liberalization from onerous regulations and constraints; land tenure regularization; basic infrastructure supply; and access to small credits for start-up and working capital could induce the creation of jobs by encouraging small-scale construction work and the growth and expansion of micro-enterprises in primary and secondary cities. For maximum impact, the package would be targeted at the informal sector, in particular the home-based enterprises that represent an essential part of the economic and social fabric of most cities in the developing world. The flexibility and independence inherent in home-based enterprises, coupled with the opportunity that setting affords to combine remunerative work with domestic responsibilities, makes this form of economic activity particularly attractive to certain categories of workers, e.g. self-employed artisans and other own-account workers, including many women. Despite regulations to the contrary, typically between one tenth and one quarter of urban dwellings in large cities may have an enterprise on the premises, and these enterprises produce around 4 per cent of metropolitan income.[71] Home-based enterprises, moreover, provide the incentive and income for owner-occupants to upgrade the physical structures of their dwellings and enterprises, thus directly generating small building-trade jobs and, indirectly, more work in the extraction, production and marketing of local building materials.[72] Home improvement and, as discussed further on, enterprise expansion are particularly induced when dwellings become connected to basic utilities.[73]

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[69] In the United Republic Tanzania, for instance, there was an explosion of small-scale manufacture of such products as soap, tie-and-dye material, furniture varnish, mattresses, kerosene lamps, etc. during the 1980s. See A. Tripp, "Defending the right to subsist: the State vs. the urban informal economy in Tanzania", WIDER Working Paper No. 59, Helsinki, August 1989.

[70] See, for instance, J. Page and W. Steel, "Small enterprise development: economic issues from African experience", World Bank Technical Paper No. 26, 1984.

[71] See, for example, P. Strassmann, "Types of neighbourhood and home-based enterprises: evidence from Lima, Peru", *Urban Studies*, vol. 23, 1986.

[72] See, for instance, M. Raj and B. Mitra, "Households, housing and home-based economic activities in low-income settlements", in Raj and Nientied (eds.), *Housing and Income in Third World Urban Development* (London, Aspect Publishing, 1990).

[73] See, for instance, P. Strassmann, "The timing of urban infrastructure and housing improvement by owner-occupants", *World Development*, vol.12 No.7, July 1984.

48. The challenge to policy-makers would be to maximize the employment-creating potential of home-based industries while seeking to ensure decent working conditions for workers employed in home-based piece-work.[74/] Beginning with land tenure regularization, the progressive legalization of the informal sector, including home-based enterprises, would help to integrate micro-enterprises into the formal economy, thereby facilitating the inspection of working conditions.[75/] Care, however, would have to be taken to reducing to a minimum the costs and obstacles to the achievement of legality while making the benefits of legality sufficiently attractive.[76/] Those benefits would include security of tenure, essential infrastructure and access to loans.

49. As most micro-entrepreneurs cannot afford to provide their own power generators and water facilities,[77/] public utility hookups are very important in encouraging the growth and spread of micro-enterprises. The provision of utilities, moreover, can reduce the health hazards of outwork systems; e.g., electric light is better than kerosene light in safeguarding the eyesight of workers engaged in piece-work embroidering. Another important catalyst to small-scale enterprise formation is access to start-up loans and, in this respect, the dwelling has the advantage that it could be utilized as collateral.[78/] In fact, it would be possible to raise substantial amounts of capital for the micro-enterprises sector by tapping into the value of dwellings as collateral.[79/] Interest rates on micro-enterprise lending,

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74/ As expressed in the 1991 report of the Director-General of the ILO, "The challenge to policy-makers is to attempt to maximize both the employment-creating potential of the informal sector and the degree of social protection and regulation extended to it". See ILO, *Report of the Director-General: The Dilemma of the Informal Sector*, Geneva, 1991, p.18.

75/ See, for instance, L. Vega, "Home work: towards a new regulatory framework", *International Labour Review*, vol. 131, No. 2, 1992.

76/ A distinction, for instance, ought to be made between regulations that are essential for public health and worker safety, and those that represent unnecessary obstacles to the operation of home-based enterprises. See G. Tipple, "Shelter as workplace: a review of home-based enterprise in developing countries", *International Labour Review*, Vol.132, No.4, 1993.

77/ See, for example, K. Lee and A. Anas, "Manufacturers' responses to infrastructure deficiencies in Nigeria: private alternatives and policy options", Infrastructure and Urban Development Department Discussion Paper INU 50, World Bank, Washington, D.C., 1989.

78/ In Lima, for instance, urban squatters are by law allowed to record possession, not ownership, of the land that they live on, assign the property rights to their dwellings to an insurance company in exchange for guarantees that loans made to them will be repaid, and thus negotiate loans with banks to start up or expand small enterprises. See "Black economies in Latin America: safe as houses", *The Economist*, 12-18 November 1988, p.78.

79/ Tne fact that in Lima, for instance, the average informal dwelling was calculated to have a construction replacement value of $US 22,000 in 1989, and that the total informal stock of housing had a replacement value of $US 8.3 billion, is indicative of the potential that collateralized informal housing may have as a lever for expanding lending to micro-enterprises. See H. de Sotto, *The Other Path; The Invisible Revolution of the Third World*, *op. cit.*

however, would have to be set at real, positive but not exorbitant levels (see part I). While the above policy proposals are directed at home-based enterprises, which constitute the majority of small enterprises in the urban informal sector, it goes without saying that the same approach can also be adopted to generate jobs in small-scale repair shops and other enterprises that are not set up in owner-occupied dwellings (see part III, for instance, with respect to clustered enterprises).

50. The growth and expansion of micro-enterprises through such incentives could well double the sector's contribution to metropolitan income, i.e. raise it to around 8 per cent, and thereby make for a substantial increase in the number of low-paid, unskilled jobs that the urban poor seek. However, it should be kept in mind that an increase in the number of micro-enterprises without a corresponding increase in demand could produce a rise in cut-throat competition that would further depress wages. It would, therefore, be better if the adoption of the policy package coincided with economic recovery. In Ghana, for example, average employment levels in a sample of micro-enterprises rose from 3.4 to 6.6 workers on account of economic growth between 1983 and 1989.[50/]

51. While job creation policies are important for urban areas, it is also necessary to encourage the growth of gainful activity in the rural areas. In fact, rural development is the cornerstone of any strategy for dealing with employment questions in many developing countries. For the least developed countries in particular, agriculture remains the dominant sector of the economy, contributing nearly 40 per cent of the GDP and accounting for the bulk of the labour force. Indeed, it is estimated that under 10 per cent of the workforce in Africa is engaged in wage employment, which suggests that the solution to job creation in that region - where both the concentration of land ownership and the proportion of landless among the rural population are relatively low - lies mainly in productive activity in agriculture.[51/] As small-scale producers often have the potential to expand their production, the challenge is to give them the means to graduate from subsistence to surplus production. What is implied, of course, is a correction of long-standing distortions and biases in growth patterns that have characterized the development choices of most developing countries, i.e. the promotion of the modern urban over the rural sector, industrialization over agriculture, and plantation export crops over traditional food crops. The assets and services needed by the rural poor include, among others, feeder roads, irrigation, credit, suitable technology with a focus on traditional crops, preservation of the environment, enhancement of the productive role of women, and off-farm income-generating activities. The various measures proposed below should be seen as complementary not alternative approaches. The basic emphasis would be on improving the productivity of self-employed small farmers in neglected rural areas. If smallholder production can be made to rise steadily, off-farm activities can be combined with the growing purchasing power among the small farmers. The increased food output, it

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[50/] See W. Steel and L. Webster, "Small enterprises in Ghana: responses to adjustment", World Bank Industry Series No. 33, Washington, D.C., 1990.

[51/] See J. Vandermoortele, "Youth and employment in sub-Saharan Africa: some facts and figures", report on the regional workshop held at Buea, Cameroon, during 24-28 November 1986, Economic Commission for Africa, Addis Ababa, 1987.

should be noted, would help to satisfy the rising demand for food as towns and cities continue to grow. In sub-Saharan Africa, for instance, food production will have to double over the next 30 years if it is to keep pace with population growth and urbanization.[82/]

52. Much labour in the rural areas could be absorbed through a combination of measures aimed at boosting agricultural productivity and expanding and diversifying the range of farm and off-farm activities with employment linkages to the agricultural sector. In accordance with this set of objectives, the first element of a rural job-promoting policy package would include micro-enterprise credit schemes to foster household and community projects, such as poultry raising, fisheries, food processing, repair shops, and other on- and off-farm gainful occupations. Group lending and group liability is an effective way to overcome the obstacles, in particular, to providing women who lack collateral assets with access to credit. Such schemes would create additional employment through the adoption of labour-intensive technology, and generate greater savings for investment in the rural areas concerned. They would help bring incentive goods to the area and, in general, promote intersectoral linkages contributing to the increased market orientation of the rural poor, who are normally marginalized and overlooked in national development policies and programmes. The demonstrated achievements of this sort of programme in, for instance, Bangladesh and Indonesia, argue for continued and strengthened efforts to emulate the approach in as many developing countries as possible.[83/] Moreover, as discussed below, autonomous growth rates in agriculture would strengthen this strategy of self-employment generation through the forward and backward linkages achieved with agriculture.

53. The second element of the proposed rural package would be to invest in infrastructure for underdeveloped, ill-watered rural areas where the highest incidence and severity of poverty are often found. Such public works projects would emphasize the participation of beneficiaries in the identification and design of the projects. Projects would include rural feeder roads serving areas which, for want of good arable land and access difficulties, are predominantly settled by the poor.[84/] Another priority would include the

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[82/] See, for instance, C. Delgado, "Why domestic food prices matter to growth strategy in semi-open West African agriculture", *Journal of African Economies*, vol. 1, No. 3, 1992; and D. Seckler (ed.), *Agricultural Transformation in Africa*, Winrock International Institute for Agricultural Development, Arlington, Virginia, 1993.

[83/] Examples of IFAD-supported schemes of this sort in sub-Saharan Africa include the Muzdi Fund in Malawi, the Village Development Fund in Mali, and the credit mutuel schemes in Guinea and Congo. See IFAD, "The state of world rural poverty: a profile of Africa", IFAD, Rome, 1993, pp. 26-27.

[84/] Assuming a satisfactory ratio of labour to capital, an adequate result can be achieved within the realm of economic efficiency when public works projects are intensive and yet have adequate supplies and machinery to complement the efforts of local labour. The risk is that interest group pressures can result in an over-reliance on standard equipment, especially if there is substantial idle equipment and capacity in the construction industry. See J. Tendler, "Rural projects through urban eyes", World Bank, Staff Working Paper No. 532, Washington, D.C., 1982; and J. Howe and P. Richards, *Rural Roads and Poverty Alleviation*, (Boulder, Colorado, Westview Press, 1985).

building of small and low-cost irrigation schemes that could be maintained and operated by the poor themselves, with government agencies providing periodic technical support. In arid or semi-arid areas where the rate of extraction of groundwater should not exceed the rate of replenishment, water harvesting systems, i.e. low-cost structures for collecting and concentrating water runoff, might be emphasized. A third priority would consist of erosion control, contour bunding, terracing, soil and water conservation, reforestation, range pasture management, and other environmentally-oriented activities. If well-planned and executed, such labour-intensive forms of investment could help to alleviate seasonal rural underemployment and poverty at a cost which would be modest in relation to conventional investment strategies.[85/] Moreover, both the jobs created in public works and the benefits from those investments would accrue to the poor. Such public works, however, will accomplish little unless suitable farming technologies and extension packages are made available to the small producers in those areas.

54. The third element of the rural job-promoting package would therefore be to develop means of increasing farm output in marginal rural areas. While research almost everywhere has concentrated on large-scale production in areas of relatively high resource endowment, research relevant to small-scale producers in marginal soil and rainfed areas has been deficient. Taking its inspiration from highly specialized large-scale agricultural units of production, research has tended to dwell separately on individual crops rather than on the interaction between crops, which is of much greater relevance to small-scale producers engaging in complex systems of production emphasizing both output and security. A promising way to increase farm output and jobs would be to apply to those areas biotechnology advances relating to drought-resistant crops that would also be able to fix their own nitrogen in the soil, thus not requiring the application of chemical fertilizers.[86/] In this way, biotechnology - like the "green revolution" before it - could raise the demand for labour per unit of land. [87/] Better yet, it would extend employment opportunities to the door of would-be migrants living in disadvantaged rural areas, thus providing on- and off-farm jobs where few

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[85/] See, for example, J. Gaude and L. Watzlawick, "Employment creation and poverty alleviation through labour-intensive public works in least developed countries", *International Labour Review*, vol. 131, No. 1, 1992.

[86/] Fertilizer use in sub-Saharan Africa is very low compared with the other developing regions, averaging 9 kilograms of plant nutrients per hectare of arable land in 1990, compared, for example, to the 69 kilograms used in South Asia.The paucity of irrigated land in sub-Saharan Africa does not appear to be the reason, since India is estimated to use at least three times more fertilizer on rainfed land than sub-Saharan Africa does. The problem lies more with the costs associated with small procurement lots and high shipping, handling and domestic transport costs. See World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead*, *op. cit.*, p.87.

[87/] See, for instance, M. Lipton and R. Loghurst, "Modern varieties, international agricultural research, and the poor", Consultative Group on International Agricultural Research Study Paper No. 2, World Bank, Washington, D.C., 1985.

existed before.[88] In Kenya, for instance, where biotechnology has been applied at the cell level in the cultivation of potatoes,[89] biotechnology cultivation has been found to employ twice as much labour per unit of land as production by non-adopters.[90]

55. Broadly defined, biotechnology refers to techniques that use living organisms to modify the characteristics of, among other things, plant agriculture. Like the "green revolution" technologies before it, it involves use of the genetic material of plants. However, biotechnology can go beyond cross-breeding and, in effect, jump barriers that prevent different species from mating. Thus, for instance, cactus genes can be inserted into wheat, corn or soybeans to produce less "thirsty" crops. Moreover, genetic engineering makes it possible to develop plants that fix their own nitrogen in the soil via micro-organisms, thus holding out the prospect of increased soil fertility and reduced environmental deterioration.[91] Furthermore, by changing the maturation and ripening cycles of a number of plants, crop diversification and multiple cropping are made possible.[92] Biotechnology thus has a degree of flexibility which enables it to be harnessed to respond to the needs of the poorest farmers in the most disadvantaged areas.[93]

56. The transfer and diffusion of biotechnology, however, are likely to pose problems. The national and international research centres that developed the "green revolution" technologies of the past are confronted by the problem of how to continue fulfilling their public-good role of collaborating and transferring improved technologies among and within developing countries if they are denied access to advances made in biotechnology research that are protected by intellectual property rights.[94] While the research of private biotechnology firms is propelled primarily by short-term, profit-driven motives (such as the creation of substitute and new products that may prove

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[88] Because of the associated multiplier effects, an increase in jobs could result off the farm as well as on the farm. It is estimated, for instance, that a $1 increase in value added from agricultural tradeables produces an additional $0.83 of off-farm rural income in Asia and $0.50 in Africa. See FAO, "Rural poverty in the 1990s", *Rural Development*, No. 15, January 1994.

[89] See L. Mureithi and B. Makau, "Biotechnology and farm size in Kenya", WEP Research Working Paper, ILO, Geneva, 1989.

[90] See *Agriculture: Towards 2010*, FAO, Rome, 1993.

[91] With respect to such breakthroughs in China and Australia, see W. Anderson, "Food without farms", *The Futurist*, January-February 1990.

[92] See, for instance, H. Miller and S. Ackerman, "Perspective on food biotechnology", *FDA Consumer*, March 1990.

[93] For insightful information on the actual and potential social implications of biotechnology in developing countries, see I. Ahmed, "The bio-revolution in agriculture: key to poverty alleviation in the Third World?", *International Labour Review*, vol. 127, No. 1, 1988; and "Advanced agricultural biotechnologies: some empirical findings on their social impact", *International Labour Review*, vol. 128, No. 5, 1989.

[94] See, for example, UNCTAD, "Trade and development aspects and implications of the new and emerging technologies: the case of biotechnology", (TD/C.6/154), Geneva, 1991.

detrimental to primary exporters), the profit motive does not preclude some firms from collaborating with their governments - the latter in their capacity as donors - and the United Nations system in non-profit, public-service partnership ventures aimed at developing improved seeds for small producers in soil-poor, water-short rural areas.[25] As for marketing the seeds within developing countries, non-governmental agencies and other community organizations could help to overcome market failure in seeds distribution and extension advice to poor farmers[26] in countries where privatization and market liberalization policies have eliminated public sector services from the handling of such responsibilities (see part I). Where women are the driving force in food production, organizing women's groups and, where feasible, deploying appropriately trained female extension personnel would be essential. What is particularly important, given the complex and diversified nature of small-farmer sectors characterized by mixed farming, multiple cropping and heterogeneity of agro-sociological environments, is that research and extension should be closely linked.

C. CONCLUSIONS

57. There have been decades of frustration concerning the creation of quality jobs as part of the efforts to reduce poverty. While the benefits of growth have been dispersed throughout society, even reaching its poorest and most vulnerable members, labour market segmentation became worse with growth. Indeed, it has proved easier for governments to provide education, health and other basic needs than to satisfy the basic human need of decent employment for all. The difficulty of creating quality jobs at a pace sufficient to keep up with population growth and migration has been compounded in recent years by the debt crisis and the adjustment policies that have followed. The competitive pressures of an increasingly integrated global economy and the labour force liberalization dimensions of structural adjustment policies have further eroded the prospects of secure and adequately paid jobs for most of the population of the developing world.

58. In view of the difficulty of creating jobs and the bleak labour market prospects that confront most developing country policy-makers, humility and realism are necessary when proposing new initiatives and orientations. To begin with, therefore, it needs acknowledging that, to the extent that there must be a trade-off, the quantity of jobs created for the poor should take precedence over the question of their quality. Secondly, the goal of job creation policies should be to induce the absorption of the poor in the labour market, not to rely only on "workfare" projects that fail to

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[25] Such arrangements have taken place, for instance, in the health sector. Efforts to eradicate the guinea worm in West Africa, for example, have involved donors, the World Health Organization, and private companies such as E. I. Dupont's contribution of nylon filters and American Cyanamid's donation of Abate larvicide. Similarly, UNDP, WHO and the World Bank teamed up with the Merck pharmaceutical company to develop and test a drug called Ivermectin, which Merck provides free of charge in Africa and Latin America for treating river blindness (onchocerciasis). See United Nations, "International cooperation for the eradication of poverty in developing countries" (A/46/454), 20 October 1991.

[26] See, for instance, S. Wiggins, "NGOs and local level seed supply in The Gambia", Overseas Development Institute, London, 1992.

mainstream the poor and move them toward improved economic self-sufficiency. Thirdly, to the extent that development and growth have been unbalanced in the past, one way to increase the number of jobs - including better conditions of self-employment - would be initially to focus job creation efforts on disadvantaged areas and, as much as possible, to include women among the targeted groups. The process of redressing that imbalance would of itself help to generate jobs and gainful occupations in those areas. In this respect, the measures proposed to induce the creation of more jobs include informal sector liberalization policies; the provision of basic infrastructure and security of land tenure for informal urban settlements; the granting of loans to small-scale entrepreneurs in the urban and rural areas; the extension of basic infrastructure to backward rural areas; and the development and dissemination of improved seeds to increase the output of small producers in land-poor and water-scarce rural areas. While no panacea, such an eclectic approach has the advantage that it can induce significant mutually reinforcing effects important in creating additional jobs for the poor.

III. MEANS FOR THE PARTICIPATION OF SMALL-SCALE AND MICRO-ENTERPRISES IN INTERNATIONAL TRADE

A. BACKGROUND

59. Small-scale enterprises have become a subject of renewed interest in recent years due to the profound economic upheavals and transformations that many developing countries are experiencing. With most large-scale enterprises adversely affected by the debt crisis and current structural adjustment policies (see part I), the small-scale sector has emerged as a potential alternative way to facilitating economic recovery, employment generation and poverty reduction (see part II). Indeed, because of its demand for and efficient use of unskilled labour in labour-intensive work, the small-scale sector is widely viewed as helpful in reducing poverty through productive employment.[97] Interest in its role in international trade has also grown because of countries' efforts to strengthen their external account. The adoption of trade liberalization policies by many developing countries has further spurred interest in what the small-scale sector is capable of achieving in this policy setting. While lacking the internal economies of scale of large firms, small firms are seen as having a competitive advantage in the export sector, as they are able to exploit external economies of linkage and to adjust faster to changing opportunities.[98]

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[97] It is generally agreed that the small-scale sector employs labour and capital more efficiently, taking into account the true opportunity costs of factors of production, than the large-scale sector, thus reducing poverty while at the same time increasing output. See I. Little, D. Mazumdar and J. Page, *Small Manufacturing Enterprises: A Comparative Study of India and Other Economies* (Oxford University Press, 1986), pp. 4-5

[98] See C. Sabel, "Changing models of economic efficiency and their implications for industrialisation in the Third World", in Foxley, McPherson and O'Donell (eds.), *Development, Democracy and the Art of Trespassing*, University of Notre Dame Press, 1986.

60. The small-scale sector, as usually defined, consists of units and enterprises employing from one to 50 persons and operating in rural and urban non-agricultural activities. Within this sector, the most prevalent form of enterprise is the micro-enterprise, which employs up to 10 persons.[99] Among others, this category includes the self-employed in the informal sector. Small enterprises, on the other hand, employ between 11 and 50 people, and are found in both the informal and formal sectors.[100] Generally speaking, examples of small-scale participation in international trade may be found at all size levels, ranging from the self-employed to modern sector enterprises at the upper end of the small-scale spectrum. While the majority of small-scale enterprises operate in the service sector and most of the rest in import-substituting production, there are significant instances of clustered small firms and micro-enterprises engaged either directly or indirectly in export production.

61. The discussion that follows begins with small-scale units engaged in informal, generally illicit trade, then proceeds to examine the clustered small-scale sector and its links to international trade, thereafter illustrates the dynamics of the small-scale sector in export production, through three case studies, and concludes with suggestions for possible government policies in this area. As might be expected, the self-employed are mainly engaged in unrecorded transborder trade while micro-enterprises and small enterprises that rely on geographical clustering and on subcontracting arrangements are involved in recorded international trade.

B. UNRECORDED TRANSBORDER TRADE (UTT)

62. Unrecorded transborder trade (UTT) involves the smuggling of goods that are restricted for trade, or traded without proper documentation. Whether seen as deplorable criminal behaviour or as a logical response of economic agents to market distortions, UTT is a phenomenon that has often assumed considerable proportions in countries suffering from import strangulation, and in regions where considerable price differentials exist between neighbouring national markets. It also tends to be entrenched in areas where ancient trade patterns conflict with colonially-determined national frontiers that ignore close transborder ties between members of a same ethnic group.

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[99] It has been estimated, for instance, that micro-enterprises account for 83 per cent of industrial employment in Zambia (1985) and 66 per cent in the Philippines (1974). See C. Liedholm and D. Mead, "Small-scale industries in developing countries: empirical evidence and policy implications", USAID, Washington, D.C., 1986.

[100] However, the definitions of small and micro-enterprises do not always follow the conventional delimitations. In a recent study of small enterprises, for instance, UNDP defined micro-enterprises as employing between 0 and 4 people, with small enterprises employing between 5 and 25 people. See UNDP, "Development of rural small industrial enterprise: lessons from experience", UNIDO, Vienna, 1988.

63. Despite the lack of precise data, UTT is considered in many low-income countries to exceed officially recorded trade.[101] The goods sold across borders include luxury goods on which one of the countries has high tariffs; goods which in one of the markets are more expensive because of the infant-industry protection they receive;[102] goods such as food staples that are subsidized in one of the countries concerned; goods that are in limited supply in a given market because of scarce foreign exchange; agricultural products for which the producers in one of the countries receive low official farmgate prices; and export crops from countries with overvalued exchange rates.[103] In cases of goods imported from the industrialized countries for sale in local black markets, their purchase abroad is often made possible by foreign remittances or by purchases in those countries by relatives living there.[104]

64. Two kinds of economic agents are typically engaged in UTT. First, there are the small-scale, low-income traders who use diverse means to move small quantities of goods across national borders. They often sell goods or crops produced on a small scale either by them or by close relatives in the informal sector. Among them are many women. For this group, personal relationships with local residents on both sides of the border make it easier to elude customs controls. The flows in this trading are often significant in the aggregate, even if the amounts corresponding to each individual border-crossing are small. Secondly, there are groups composed of organized, sometimes armed, professionals who carry out larger-scale movements of illicit goods.

65. There are both positive and negative aspects to UTT. On the negative side, the tax and tariff avoidance that forms part of UTT reduces government revenue. Likewise, diminished foreign exchange proceeds attributable to illegal border trade negatively affect foreign exchange reserves. Furthermore, corruption may develop in the local culture and economy as a result. On the positive side, by broadening access to scarce resources, smuggling prevents some of the loss of welfare that otherwise results from severe trade restrictions. By utilizing local currencies, for instance, it increases the volume of trade between countries that lack foreign currency and carry out official trade only on the basis of convertible currencies. Secondly, illegal border trade creates employment in both trade and, indirectly, in productive activities.

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[101] See, for instance, A. Deardorff and W. Stolper, "Effects of smuggling under African conditions: a factual, institutional and analytical discussion", *Weltwirtschaftliches Archiv*, 126 No.1, 1990.

[102] Such protection typically consists of heavy duties and quantitative restrictions on imports that compete with domestically produced goods.

[103] For instance, export-crop producers can often earn a multiple of what they normally obtain in domestic currency by selling their produce to smugglers for dollars or some other foreign currency and exchanging this foreign currency against domestic currency on the black market. See, for example, "Le café dans l'economie mondiale", *Marchés tropicaux*, 29 April 1988.

[104] See, for instance, J. Dawson, "The relevance of the flexible specialisation paradigm for small-scale industrial restructuring in Ghana", *IDS Bulletin*, vol.23, No.3, July 1992.

C. HORIZONTAL AND VERTICAL LINKAGES IN RECORDED TRADE

66. Small-scale sector enterprises generally find their export niches in activities where significant intra-firm economies of scale are of secondary importance. By way of example, the spinning industry is characterized by scale economies whereas knitted outwear may be divided into dying work, knitting, embroidering and other components that can be handled separately by different small-scale enterprises.[105] In the latter case, economies of scale may be achieved through the external economies of agglomeration and linkages that take place when small-scale enterprises are clustered together and collaborate through lateral ties and subcontracting arrangements.[106] The combination of horizontal linkages with other producers and vertical linkages backward to micro-enterprise suppliers and forward to economic agents with access to foreign markets brings a collective efficiency to the small-scale sector that enables it to participate in international trade.

67. The competitive advantage of horizontal linkages is the flexible specialization it provides to the small-scale sector. The concept of flexible specialization refers to the resource-sharing and complementarity of activities that often evolve between small-scale enterprises that are located in close proximity to each other. When such groupings encompass sectoral as well as geographical concentration, there are gains in efficiency, flexibility, specialization and frequently innovation, which are essential for competing beyond local markets. The clusters are usually characterized by depth as well as density, with small manufacturers supported by micro-suppliers and small-scale service providers (see part II). The division of labour within each of the clustered enterprises is typically low, thus fostering intra-firm flexibility, while the division of labour across them is often substantial, thereby providing the benefits of inter-firm specialization.[107] Equally important, such clusters have often made it possible to tackle common problems through collective action, both directly through producer associations and often indirectly by means of assistance from the State.[108] In short, the advantage of horizontal linkages in the

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[105] Other examples include the cycling and sewing machine industries, given their many distinct parts which require diverse operations. See M. Tewari, "Understanding the organization of production: the State, intersectoral linkages, and the historical conditions of accumulation in Ludhina's industrial regime", Cambridge, Centre for International Studies, Massachusetts Institute of Technology, July 1993.

[106] The concept of flexible specialization based on industrial clusters goes back to Alfred Marshall who pointed to the economies that arise from the concentration of specialized industries in particular localities. See A. Marshall, *Principles of Economics*, eighth edition (London, Macmillan, 1920), ch.X.

[107] See M. Piore and C. Sabel, *The Second Industrial Divide: Possibilities for Prosperity*, (New York, Basic Books, 1984); and W. Sengenberger, "Economic and social perspectives of small enterprises", *Labour and Society*, vol.13, No.3, July 1988.

[108] See H. Schmitz, "On the clustering of small firms", *IDS Bulletin*, vol.23, No.3, July 1992.

small-scale sector is that they have the potential to combine the inherent flexibility and specialization of the small-scale sector with the necessary scale economies that inter-firm linkages make possible.

68. It should be noted, however, that the innovation, quality and flexibility that are important for success in exporting do not necessarily emerge from situations where small-scale enterprises are clustered together.[109/] Moreover, for each small enterprise that succeeds in gaining access to international markets, there are countless more that lose out even in the competition for local markets. In circumstances where some enterprises succeed and the majority fail, the former are normally the bigger, more modern and better-financed firms in the small-scale sector that have become involved in direct export production. As may be seen from the case studies that follow, historical and other exceptional circumstances have also played a major role in explaining why and how some clustered firms became involved in export production.

69. Besides collective, horizontal forms of efficiency, linkages that are external to the cluster may also play a critical role in enabling small-scale enterprises to participate in international markets. Inter-firm vertical linkages include subcontracting arrangements with large-scale domestic exporters,[110/] local subsidiaries of transnational corporations, or licensing and purchase agreements with foreign companies. These linkages are not always preconditioned on the clustering together of subcontractors in flexible-specialization modes of production. For instance, agents with export-marketing knowledge often serve as intermediaries in obtaining export contracts for individual as well as clustered small-scale enterprises.[111/] Whether the firms are clustered or isolated, the advantages of subcontracting for the small-scale sector include the new production opportunities, reduced marketing responsibilities and, in some cases, the working capital and skills-upgrading which contractors frequently provide. The major disadvantage is that contractors who are middlemen capture a large share of the profits

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[109/] For examples of a number of clustered activities that have achieved flexible specialisation, and others that have not, see H. Schmitz, "Small firms and flexible specialization in developing countries", *Labour and Society*, vol.15, no.3, 1990.

[110/] In The Republic of Korea, for instance, the subcontracting of indirect exports - that is, intermediate inputs supplied to another Korean firm for its export production - is widely practised in ways not unlike Japanese subcontracting. See, for example, Y. Rhee, B. Ross-Larson and G. Pursell, *Korea's Competitive Edge: Managing the Entry into World Markets* (Baltimore, Johns Hopkins University Press, 1984).

[111/] The formation of agents with export marketing skills can sometimes take unusual turns. For instance, as part of a non-equity arrangement in 1979 between the Desh Garment Company of Bangladesh and the Daewoo Corporation of the Republic of Korea, 130 Desh workers were trained for six months by Daewoo in the Republic of Korea. Upon returning to Bangladesh, 115 of those workers left Desh to set up their own small-scale ventures, or to join other newly established garment enterprises. Those workers were major agents for imparting production, management and export marketing skills throughout the whole garment industry, leading to its dramatic growth in exports. See Y. Whee Rhee, "The catalyst model of development: lessons from Bangladesh's success with garment exports", *World Development*, vol.18, No.2, February 1990.

that would otherwise accrue to the small-scale producer. In turn, the advantages of subcontracting to the contractor are lower prices and greater flexibility of production, while the disadvantages include the risks of substandard quality and failure to meet agreed delivery schedules.

70. Starting from a small base, there has been a rapid growth in international subcontracting opportunities for the small-scale sector of the developing world. Most of this growth has taken place in East and South Asia, North Africa and parts of Latin America and the Caribbean. International subcontracting has been facilitated by improvements in communications and technology, by a secular decline in tariff barriers in importing countries, and by the emergence of systems of integrated international production.[112/] With the quantity of work in any one location often dependent on inputs from other locations, much of the international division of labour has become internalized through contractual arrangements involving transnational corporations. In cases such as the hosiery and footwear industries, in fact, decentralization has reached the point where transnational corporations subcontract virtually all labour-intensive production activities to small and medium-sized enterprises in low-wage countries while retaining little else than their trade marks, design facilities and retailing networks in the home country. [113/]

71. The impact of export-related subcontracting on poverty alleviation has varied. Where subcontracting has occurred, jobs have been provided where there were none before. Often, moreover, training and technical assistance have been included, thereby upgrading the skills and human capital of workers.[114/] However, to the extent that subcontracting is at least partly motivated by the desire of large-scale enterprises to reduce their wage bill, the pay, benefits and job security of subcontracted workers are usually low. This is particularly likely to be the case when subcontracting chains are long, which means that the remuneration that workers receive must be low enough for their collective labour to support the multi-layered contracting system and still be competitive with factory labour costs in the developing world.[115/]

[112/] See, for instance, "Transnational corporations and employment: report by the UNCTAD secretariat" (E/C.10/1994/3), 13 February 1994.

[113/] See, for instance, ILO, *Recent Developments in the Leather and Footwear Industry: Report I*, Sectoral Activities Programme, Fourth Tripartite Technical Meeting for the Leather and Footwear Industry, Geneva, 1992, p.25.

[114/] For instance, in subcontracting arrangements in Thailand in the production of motorcycles and refrigerators, contractors in some cases have provided worker training as well as assistance in quality control to their subcontractors. See A. Sibunruang, "The employment effects of multinational enterprises in Thailand", Multinational Enterprises Programme Working Paper No. 54, *ILO*, Geneva, 1988.

[115/] See, for example, R. Ofreneo, "Labour market, labour institutions and economic growth in the Philippines", paper presented at the ILO-sponsored workshop on Labour Institutions and Economic Development, Bali, Indonesia, 4-6 February 1992, p.72.

D. SELECTED CASE STUDIES

72. Case studies are helpful in understanding what is required for agglomerations of small-scale enterprises to gain a foothold in international trade. They shed light and understanding on the evolution and dynamics of export growth, strategies, competition, segmentation and horizontal and vertical linkages that encompass the small-scale sector and associated economic agents. Three case studies, drawn from the Asian, African and Latin American regions, are presented below.

1. The small-scale sector of Ludhiana, India [116]

73. With over 30,000 registered small-scale firms in 1990, the Ludhiana District in Punjab produces 95 per cent of the nation's hosiery, 85 per cent of its sewing machine parts and 60 per cent of its cycles and cycle parts. Exports form a large part of this production; e.g., nearly 20 per cent of the world's exports of cycle parts are from Ludhiana. Among the exporting enterprises of Ludhiana, small-scale enterprises account for about 60 per cent of total industrial exports in value terms. Small enterprises tend to be supplied with inputs from micro-enterprises, and to sell their goods directly in the international market.

74. The small-scale sector of Ludhiana has been built over the course of many years from the ground up. Typically, men who were originally employed in casual labour worked long hours, saved to purchase equipment, set up job shops and small-scale factories, and eventually turned to independent subcontracting. Small government credits were instrumental in enabling these entrepreneurs to launch small-scale enterprises in metal working, hosiery, machine tools and cycle components. Intra-firm specialization and inter-firm subcontracting arrangements are both widespread.

75. A large inflow of migrants in recent years has contributed to Ludhiana's rapid diversification and growth into services and trading. Sales dealers, for instance, have multiplied and provide enterprise owners with information and connections for entering export markets. Moreover, a variety of governmental organizations have been established in Ludhiana which provide support to the industrial cluster through research and development, worker training, export assistance and the provision of incentives to small and medium-sized firms. The State also supplied industrial estates serviced with extensive infrastructure to accommodate new firms. Over 90 manufacturers' associations, organized by trade and spanning different-sized firms, pressure the provincial government for resources, training, access to selected trade fairs held abroad, and so on. These associations, in turn, have provided the State with an efficient way of standardizing and ensuring product quality across a large number of small member firms, thus making it easier for government agencies to vouch for firms' product quality when helping, for instance, the local sewing machine industry to obtain a niche in the international market. The manufacturers' associations have also played a

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[116] The case study is based on M. Tewari, "Understanding the organization of production: the State, intersectoral linkages, and the historical conditions of accumulation in Ludhiana's industrial regime", *op. cit.*

critical role in gaining direct access to foreign markets. For example, a group of bicycle component producers who used to export through merchant export houses and through large firms formed an export consortium in the mid-1980s to export directly and thus garner better returns. The suggestion initially came from their customer firms in Thailand and Indonesia who wanted to save on administrative work by importing a variety of parts from original producers through a single letter of credit, and who did not want to have to go through merchant intermediaries who charged more.

2. The spare parts "magazine" of Kumasi, Ghana [117]

76. An agglomeration of small-scale firms known as the "magazine" emerged in the 1980s in the industrial shanty town of Suame, a northern suburb of Kumasi. This informal-sector industrial park has provided Ghana and surrounding countries with spare parts on order for the maintenance and repair of vehicles. The growth and success of this recycling industry resulted from the foreign exchange squeeze associated with the economic crisis of the fist half of the 1980s. By creating domestic shortages, that crisis opened up a market for small-scale enterprises that otherwise could not compete. Vehicle parts that were no longer imported were copied and reproduced in the "magazine" in specialized workshops equipped with various types of metal cutting machinery. Individual enterprises were able to establish reputations for being efficient and reliable because they could rely on neighbouring enterprises for inputs and specialized operations as needed. Seventeen per cent of these small-scale enterprises also produced and supplied spare parts on demand to vehicle owners in neighbouring countries. With the reopening of Ghana's economy to imports in recent years, the small-scale sector of Kumasi thrives in the repair of vehicles but has lost some of its comparative advantage in the production of parts for domestic and neighbouring-country markets.

3. Small shoemakers of the Sinos Valley, Brazil [118]

77. Between 1970 and 1990, Brazil raised its share of world exports in the leather shoe industry from 0.5 to 12.3 per cent, making it the third largest exporter of leather shoes after Italy and the Republic of Korea. The fastest growth within Brazil occurred in the Sinos Valley, which is inhabited by descendants of German settlers, who have by tradition chosen to be self-employed rather than sell their labour to others. In the Sinos Valley, some 450 clustered shoemaking firms export 70 per cent of their output to the United States and Europe, grossing in 1991 nearly US$ 900 million in the export of almost 100 million pairs of shoes.

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[117] The case study is based on H. Schmitz, "Small firms and flexible specialisation in developing countries", op. cit.; and J. Dawson, "The relevance of the flexible specialisation paradigm for small-scale industrial restructuring in Ghana", *IDS Bulletin*, *op. cit.*

[118] The case study is based on H. Schmitz, "Small shoemakers and Fordist giants: tale of a supercluster", IDS Discussion Paper No. 331, University of Sussex, Brighton, September 1993; and E. Klein, "La cadena de distribución y la competividad de las exportaciones latinoamericanas: las exportaciones de calzado del Brazil" (LC/G1669), ECLAC, Santiago, 1991.

78. Of these 450 firms, close to 100 are small manufacturing enterprises. In addition to these manufacturers, there exist 100 or so micro-enterprises which, are subcontracted to produce labour-intensive parts for the exported shoes (e.g., stitching of uppers and preparation of bottoms). By externalizing such work, manufacturers have been able to save on premises, equipment and especially labour costs. Apart from half-a-dozen large-scale producers that have integrated vertically, most of the industry relies on subcontracting and other complementary arrangements to obtain components and services not provided in-house. Supporting services have also sprung up, including around 70 export agents who assist manufacturers in product development, marketing and adherence to basic quality and delivery standards. In addition, the Sinos Valley shoe industry has given rise to six industry associations, two professional associations, an organization that holds regular fairs, and four centres (with varying combinations of public and private sector finance) that provide training and technical services.

79. Changes in the 1990s in international markets calling for smaller orders and shorter delivery times have increased the viability of the small-scale manufacturers of Sinos Valley. As quality and delivery standards grow and the specialization and inter-firm division of labour increases, manufacturers have invested in and cultivated more regular relations with their suppliers and workers, whom they have advised and trained to raise the quality of their work. The cumulative effects of trust and reciprocity built over years of kinship and business ties have enabled this cooperation to work smoothly and effectively. Despite the growth and export-led success of the shoemaking industry, however, wages in the Sinos Valley remain low. Employment in the Valley has increased rapidly over the years as a consequence of the export boom in the shoe industry, but wages have fallen in real terms since the early 1980s. The underlying reason for this fall in wages lies in the local labour surplus created by rapid in-migration from other parts of the country. However, with the shift in the 1990s from quantitative to qualitative growth in shoe production, occupational requirements and, hence, wages may well rise.

E. CONCLUSIONS

80. Most of the poor who engage in international trade do so through smuggling. This transborder trade helps to provide jobs and economic growth by redistributing goods in accordance with the laws of the market. By criminalizing behaviour that most of the poor consider acceptable, small-scale traders are forced to cope with higher transaction costs, the rent premiums of which are often captured by the non-poor, such as customs officials. Crime enforcement measures ought therefore to be targeted primarily at big-time operators and the officials who protect them. If governments choose to reduce small-scale smuggling, the corresponding incentives can be minimized by reducing economic distortions and simplifying trade-related procedures.

81. Small-scale enterprises also perform an important role in reducing poverty. The labour-intensive nature of the work offered by small enterprises makes them more suited than large enterprises to the occupational needs of the unskilled poor. However, as the Brazilian case study has shown, the creation of more jobs through exports does not necessarily mean that wages will also rise. Wage levels depend on the supply of workers available to the

sector, and their numbers can be rapidly augmented by in-migration from depressed areas of the country.

82. Most small-scale enterprises engaged in legal foreign trade rely on support systems of one kind or another. Leaving aside outright government subsidization, there are two principal choices available. One is for small enterprises to associate with other small enterprises to build a mutually constructive network of joint support and resource-sharing. The other is for small enterprises to benefit from the contacts and resources of economic agents with access to international markets through, for instance, subcontracting arrangements with the local affiliates of transnational corporations. Usually, both inter-firm vertical and horizontal linkages are necessary for the small-scale sector to compete in international trade. It should be noted in this connection that the trade can be with developing countries, as indicated in the case studies from India and Ghana, as well as with the developed countries.

83. Judging from the case studies, the most successful examples of small-scale sector participation in registered external trade appear to have several qualities in common. First of all, they have been characterized by inter-firm lateral and supplier ties based on the principles of competition and mutually advantageous cooperation. Secondly, those linkages have been reinforced by trust and mutual support deriving often from ethnic and kinship ties. Thirdly, the creation of effective trade associations has often proved successful in obtaining government support and in helping to establish direct ties with importers abroad. Fourthly, government support at various critical junctures has enabled collectivities of small-scale enterprises to grow, raise their quality standards and gain access to foreign markets. The opportunities made possible by government agencies, and especially trade associations, of exporting directly to firms abroad have had the advantage of enabling the small-scale sector to reap much of the proceeds from exports that otherwise would have been captured by large-scale intermediaries.

84. Governments can assist the small-scale sector in various ways to grow and export. At a macroeconomic level, devaluations that maintain realistic exchange rates (see part I) will at the same time help small firms and their suppliers by eliminating the bias against exports, labour and other local inputs that occurs when currencies are overvalued. At a more sectorally specific level, experience has shown that exports can be stimulated when governments eliminate export taxes and treat all export activity in the same way, e.g. provide access to bank loans for working capital not only to large-scale exporters but also to small-scale producers of intermediate exports.[119] Other ways in which governments can assist include (a) providing industrial parks supplied with water and electricity to encourage small-scale enterprises to cluster together, and (b) setting up local government-financed and supported institutions in research and development, quality control assistance and technical training to assist the collectivity of small-scale enterprises to compete at the international level. Generally speaking, however, this latter form of public assistance should not be initiated in a top-down manner, but rather respond to such justifiable needs as are

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[119] See, for instance, Y. Rhee, B. Ross-Larson and G. Pursell, *Korea's Competitive Edge: Managing the Entry into World Markets, op. cit*

identified and lobbied for by associations representing clustered small-scale enterprises. In such instances, the assistance is likely to be more effectively utilized, as well as channelled more efficiently through the respective representative bodies of collectivities of small-scale enterprises.